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SUBJECT: Islamic Banking in Sudan

¶1. Summary: A banker in Khartoum offered his insights into the operation of Islamic banking in Sudan. No global standard exists for Islamic banking, and practices allowed in other Islamic countries are not permitted in Sudan. Rigidities of Islamic banking raise costs, and, given the option, many clients in the North would use conventional banks in the South. Nevertheless, he said his bank would not be opening in the South for at least a couple of years, largely due to lack of infrastructure. The exchange rate may go to 180 Dinar to the Dollar by early 2007. Microfinance would be a useful addition to the financial sector in Sudan. End Summary.

#### No Single Islamic Standard

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¶2. A meeting on August 3 with Nadim Ghantous, General Manager of Byblos Bank in Khartoum, provided Econ Officer and Econ/Commercial Specialist with an overview of the operation of Islamic banking in Sudan. Byblos is based in Lebanon, with its single office in Khartoum operating as an Islamic bank. He underlined that there is no global standard of Islamic banking; the interpretation of what is permissible in Sudan is different from Bahrain, for example. Hoping to get approval for certain practices, he had obtained a copy of a code of Islamic banking practices in Bahrain and furnished it to the authorities in Khartoum, expecting that approval would be routine. He was surprised, however, that the Sudanese authorities reviewed the Bahraini document phrase by phrase and declined to allow some practices here that are allowed in Bahrain.

#### Stringent Requirements re Arrears, Overdrafts

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¶3. One peculiarity of Sudanese banking is that any client falling in arrears by more than 90 days must be reported to the central bank. The name of such clients is circulated to all banks. All banks are required to stop dealing with an individual on the list. One result of this system is that it is difficult for a firm experiencing temporary problems to restructure its debt or work out refinancing. Short-term financial difficulties can be exacerbated by the fact that the use of overdraft facilities is not allowed in Sudan. Ghantous said that this absence is both inconvenient and costly to clients here.

#### Asset Purchases and Business Ventures Complex

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¶4. Under Islamic banking, banks arrange to purchase an asset (e.g., a car) on behalf of a client, and then sell it to the client with a set mark-up in price, with repayment spread over time, (Morabha operation). In making business loans, the bank becomes the partner for the business, taking a part of profits rather than interest (Mosharka operation or partnership). Ghantous said that this latter arrangement can be lucrative for the bank when the business is profitable, but it does require much closer attention to the operations of the company than when a conventional loan is made.

15. Commenting on the general economic trends, Ghantous said that the dinar/dollar exchange rate is likely to go to 200/1 by year end and perhaps 180/1 by early 2007. The falling exchange rate has benefited foreign-based banks like his. He confirmed that the one-year Sudanese treasury bonds yielded 29 percent in Dinar terms, or 45 percent in dollar terms. This yield, which is not interest but a type of profit-sharing, was boosted by the privatization of a government-owned mobile phone company during the past year. The market for treasury bonds is limited, as foreigners are not allowed to buy the bonds and any buyer is limited on the amount that can be purchased.

#### South Hurt by Lack of Infrastructure

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16. Ghantous said that his bank had looked into opening an office in Juba, but had decided not to, at least for the next two to three years. He said that the lack of infrastructure is the main problem, but the lack of government incentives also an important factor. When he asked the GoSS what incentives it would provide for Byblos Bank to open, the reply was security and protection of initial capital. Ghantous said those should be given, what the GoSS needs to offer is tax incentives, building sites, or other incentives. He said that when conventional banking opens in the South, it would probably draw business from the North. Businesses in the North would find it cheaper and more convenient to use the conventional banking system in the South, he predicted. How this will function legally remains to be seen, but Ghantous is confident that the details can be worked out. He concluded by noting that facilities for micro-finance are needed in Sudan, as very small businesses have no access to credit.

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